1998
Annual
Report

NETHERFIELD
ENERGY CORPORATION

Corporate Profile

Netherfield Energy Corporation is an Alberta-based international oil company with production in northern Argentina.

Netherfield's common shares trade on The Alberta Stock Exchange under the symbol NLD.

The Annual General and Special Meeting of the shareholders will be held on Thursday, June 24, 1999, at 1:30 p.m. in the BrownLee Room of the Westin Hotel, Calgary, Alberta.

President's Report to Shareholders

Netherfield underwent significant changes during 1998, unfortunately progress was severely limited by the collapse of world oil prices. Despite this environment, sufficient funds were raised to close our acquisition in Argentina, complete a substantial amount of technical work to more clearly identify the potential of the property, and initiate a small workover program. Today, Netherfield is positioned to move forward, the company has no debt, 12,296,348 shares outstanding, and produces on average 250 barrels of oil per day from northern Argentina. Gilbert Laustsen Jung Associates Ltd. estimate the proven plus probable reserves of the corporation exceed 5,000,000 barrels.

During the spring of 1998, Gold Star Energy Inc. raised $4.5 MM issuing shares at $0.35 each. This enabled the corporation to close the acquisition of Netherfield Corporation for $4.2 MM. Netherfield Corporation, a British Virgin Islands registered company owned a 40 % working interest in the Puesto Guardian concession, and a 28% working interest in the La Brea concession, both in northern Argentina. Unfortunately insufficient funds were raised to close the purchase of the contract operators reversionary working interest and operating contract. During the May 8, 1998 Annual General Meeting, the corporation received shareholder approval to consolidate its shares on a three to one basis and change its name to Netherfield Energy Corporation.

In August 1998, the company was successful in negotiating the acquisition of the 60% working interest of the Puesto Guardian concession for shares and a small cash payment. Unfortunately, the collapse of the owner's bank in Ecuador prevented us from obtaining clear title to their interest in the property in Argentina and the deal was never consummated.

Netherfield has reprocessed approximately 70% of the 2,500 kilometres of 2-D seismic on Puesto Guardian and reinterpreted the structure on three of the four producing pools. A large, previously undefined structural high extension to the Dos Puntitas pool is indicated. Additionally, reinterpretation of the seismic across the Las Avispas Este exploration well, which tested oil at rate of 70 m^3/d, indicates this well was drilled on the flank of a structure and never followed up.

A thorough review of the production history, and completion of producing and suspended wells in the four producing pools, resulted in the identification of numerous workover or recompletion opportunities including reperforation, installation of artificial lift, and optimization of the existing pumping equipment. Partner approval was obtained to conduct a four well workover program in December of 1998, funded from existing cashflow. Initial flow rates, post recompletion, increased production by 30%, however flowrates have declined pending the installation of artificial lift.

Netherfield's challenge for 1999 is financing the exploitation opportunities in Puesto Guardian.

Peter A. Sider
President and Chief Executive Officer

Management's Discussion and Analysis

Highlights

In May 1998, the corporation closed the acquisition of Netherfield Corporation, a British Virgin Islands registered company, for $4,200,000 before adjustments. The only assets of Netherfield Corporation were the 40% working interest in Puesto Guardian, and a 28% working interest in La Brea.

During June of 1998, the corporation closed a special warrant financing, issuing 12,765,014 units for gross proceeds of $4,467,000. As approved at the May 8, 1998 Annual General Meeting, the shares of the corporation were subsequently consolidated on a three for one basis and the Company's name changed to Netherfield Energy Corporation upon receiving Alberta Stock Exchange approval on June 29, 1998.

In June 1998, the Company sold miscellaneous oil and gas rights and production in southwestern Saskatchewan for $136,371. Additionally, a minor working interest in a gas unit in Saskatchewan was sold effective December 31, 1998, for proceeds of $135,000.

Operating Results

The following provides a brief summary of the financial results of the Company for the year ended December 31, 1998, as compared to the year ended December 31, 1997. Revenue increased from $286,723 to $1,305,962. The 1998 revenues include our 40% share of Puesto Guardian commencing April 1, 1998. Operating costs increased from $154,848 to $873,461 again as the 1998 amount includes our share of Puesto Guardian after March 31, 1998.

General and administrative expenses increased from $244,453 to $1,344,792 as a result of having five full-time staff commencing in October 1997, along with offices for all of 1998 in both Calgary and Buenos Aires. Subsequent to year-end, the company has reduced its monthly administrative costs as a result of reduced operating income caused by declining oil prices during late 1998 and early 1999.

The net loss for the year increased from $765,975 to $1,686,570 primarily as a result of the increase in administrative expenses as noted above.

Year 2000

In 1999, the corporation will continue with a year 2000 date conversion project. This project is not expected to add significant incremental costs as the corporation does not have proprietary programs and relies on software and equipment suppliers. There is no assurance the systems of other companies on which the corporation's systems rely will be timely converted, or any such failure to convert by another company would not have an adverse effect on the corporation's systems.

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Netherfield Energy Corporation (formerly Gold Star Energy Inc.) as at December 31, 1998 and 1997 and the consolidated statements of operations and deficit and changes in financial position for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1998 and 1997 and the results of its operations and changes in financial position for the years then ended in accordance with generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Calgary, Canada
April 26, 1999

Consolidated Balance Sheets

(Formerly Gold Star Energy Inc.)

December 31, 1998 and 1997	1998	1997
ASSETS		
Current assets:		
Cash and short-term deposits	**$ 571,791**	$ 2,103,549
Accounts receivable	**450,107**	42,039
Inventories	**53,569**	–
	1,075,467	2,145,588
Petroleum and natural gas properties (note 3)	**4,620,704**	631,979
	$ 5,696,171	$ 2,777,567
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 527,721**	$ 226,115
Current portion of long-term debt (note 4)	**–**	324,000
	527,721	550,115
Provision for future abandonment and site restoration	**118,675**	19,400
Shareholders' equity:		
Share capital (note 5)	**8,460,985**	3,932,692
Deficit	**(3,368,460)**	(1,424,640)
	5,092,525	2,508,052
Less: Share purchase loans (note 6)	**(42,750)**	(300,000)
	5,049,775	2,208,052
	$ 5,696,171	$ 2,777,567

See accompanying notes to consolidated financial statements.

Approved by the Board of Directors:

Peter Sider, Director

Raymond Antony, Director

Consolidated Statement of Operations and Deficit

(Formerly Gold Star Energy Inc.)

Years ended December 31, 1998 and 1997	*1998*	*1997*
Revenue:		
Oil and gas sales, net of royalties	$ 1,245,984	$ 260,849
Interest income	59,978	25,874
	1,305,962	286,723
Expenses:		
Operating	873,461	154,848
General and administrative	1,344,792	244,453
Interest on long-term debt	29,160	38,950
Financing charges	85,622	–
Depletion and depreciation	659,497	614,447
	2,992,532	1,052,698
Net loss	(1,686,570)	(765,975)
Deficit, beginning of year	(1,424,640)	(658,665)
Impairment of share purchase loans (note 6)	(257,250)	–
Deficit, end of year	$(3,368,460)	$(1,424,640)
Loss per share	$ (0.21)	$ (0.12)

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Financial Position

(Formerly Gold Star Energy Inc.)

Years ended December 31, 1998 and 1997	*1998*	*1997*
Cash provided by (used in):		
Operations:		
Net loss	$(1,686,570)	$ (765,975)
Items not involving cash:		
Depletion and depreciation	659,497	614,447
Net change in non-cash working capital	(160,031)	44,837
	(1,187,104)	(106,691)
Financing:		
Issue of common shares and special warrants	4,950,755	3,035,550
Share issuance costs	(422,462)	(208,064)
Repayment of long-term debt	(324,000)	(644,799)
Loan receivable	–	(300,000)
	4,204,293	1,882,687
Investments:		
Dispositions of petroleum and natural gas properties	298,075	716,000
Additions of petroleum and natural gas properties	(4,660,257)	(492,583)
Abandonment and site restoration costs incurred	(186,765)	–
	(4,548,947)	223,417
Increase (decrease) in cash	(1,531,758)	1,999,413
Cash, beginning of year	2,103,549	104,136
Cash, end of year	$ 571,791	$ 2,103,549

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(Formerly Gold Star Energy Inc.)
Years ended December 31, 1998 and 1997

1. SIGNIFICANT ACCOUNTING POLICIES:

(a) Nature of business:

Netherfield Energy Corporation (the "Corporation") is active in the acquisition, exploration and development of petroleum and natural gas properties.

Subsequent to its acquisition of a 40% working interest in a joint venture, substantially all of the Corporation's revenues and assets are attributable to its Argentinean operations. Corporate and administrative activities continue to be primarily conducted in Canada.

(b) Principles of consolidation:

The consolidated financial statements include the accounts of the Corporation, all of its subsidiaries and its 40% proportionate working interest in a joint venture.

(c) Petroleum and natural gas properties:

The Corporation follows the full cost method of accounting for petroleum and natural gas properties whereby all costs relating to the acquisition, exploration and development of petroleum and gas reserves are capitalized. Such costs are accumulated in country by country cost centre's representing the Corporation's activities undertaken in Canada and Argentina. These capitalized costs together with production and related equipment are depleted and depreciated using the unit-of-production method based on estimated gross proven petroleum and natural gas reserves as determined by an independent reservoir engineer.

In applying the full cost method of accounting, capitalized costs less accumulated depletion are restricted from exceeding a net recoverable amount equal to the estimated undiscounted future net revenues, based on current prices and costs, derived from proven reserves, less the aggregate estimated future site restoration and reclamation costs, development, general and administrative, financing and income tax costs plus the lower of cost and estimated fair value of unproven properties.

The unit-of-production method is used to provide for estimated future site restoration costs of producing properties and facilities.

Substantially all exploration and production activities are conducted jointly with others and, accordingly, the accounts reflect only the Corporation's proportionate interest in such activities.

(d) Per share data:

Earnings per share is calculated using the weighted average number of common shares outstanding during the period. Fully diluted earnings per share is not presented as the exercise of share options and the warrants is not dilutive.

(e) Measurement uncertainty:

The amounts recorded for depletion, depreciation and site restoration costs are based on estimates. The ceiling test calculation is based on estimates of proved reserves, production rates, oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

(f) Income taxes:

The Corporation follows the tax allocation method of accounting for income taxes. Under this method, deferred income taxes are recorded to the extent that taxable income otherwise determined is adjusted by timing differences.

(g) Comparative figures:

Certain prior year amounts have been restated to conform to current year presentation.

2. BUSINESS COMBINATION:

Effective April 24, 1998, the Corporation acquired all the issued and outstanding common Corporation shares of Netherfield Corporation ("Netherfield") for cash proceeds of $3,872,008. The acquisition has resulted in Netherfield holding a 40% working interest in an oil exploration and production joint venture in Argentina. The acquisition was accounted for using the purchase method, based on fair values as follows:

Consideration paid:	
Cash	$ 3,872,008
	$ 3,872,008
Allocated:	
Property, plant and equipment	$ 3,745,884
Working capital	412,164
Abandonment liability and site restoration	(286,040)
	$ 3,872,008

3. PETROLEUM AND NATURAL GAS PROPERTIES:

December 31, 1998	Cost	Accumulated depletion and depreciation	Net book value
Canada:			
Petroleum and natural gas properties	$ 422,000	$ 372,000	$ 50,000
Furniture and office equipment	79,246	14,595	64,651
Argentina:			
Petroleum and natural gas properties	6,133,041	1,626,988	4,506,053
	$ 6,634,287	$ 2,013,583	$ 4,620,704
December 31, 1997			
Canada:			
Petroleum and natural gas properties	$ 1,604,068	$ 1,353,000	$ 251,068
Furniture and office equipment	21,066	1,086	19,980
Argentina:			
Pre-production development cost	360,931	–	360,931
	$ 1,986,065	$ 1,354,086	$ 631,979

The commodity prices used in the ceiling test are based on prices received under contract from the sole purchaser who is the refiner and aggregator in the Corporation's producing area in Argentina. Commodity prices under this contract are based on negotiated amounts calculated with reference to the WTI oil price for periods of one year.

At December 31, 1998, the future net revenue in the ceiling test approximates capitalized costs of petroleum and natural gas properties when the contract price of $14.44 U.S. per barrel is used. Had the Corporation used the December 1998 WTI market price of oil of $11.95 U.S. per barrel the Corporation would have incurred a ceiling test write-down of approximately $4.3 million.

Costs of unproved properties of $524,500 (1997 - $nil) were excluded from costs subject to depletion and depreciation.

As a result of a ceiling test calculation, which was performed with an effective date of December 31, 1997, it was determined that the net book value of the Corporation's petroleum and natural gas properties exceeded the net recoverable amount calculated under the full cost accounting guideline and a write-down of $449,000 was recorded as additional depletion. The ceiling test is a cost recovery test and is not intended to result in an estimate of fair market value.

4. Long-term debt:

	1998	1997
Subordinated convertible debentures, unsecured, with interest at 9% payable quarterly, with a term of 3 years, convertible at $0.25/share and a non-call period expiring June 30, 1997	$ -	$ 324,000
Less: current portion	-	324,000
	$ -	$ -

5. Share capital:

(a) Authorized:

Unlimited number of common shares, without nominal or par value

Unlimited number of preferred shares, without nominal or par value

(b) Issued:

	Number of Shares	Amount
Common shares:		
Balance, December 31, 1996	4,540,487	$ 1,105,206
Issued for cash:		
Pursuant to private placement	1,000,000	1,080,000
Exercise of options	66,667	25,000
Exercise of warrants for common shares	150,000	183,000
Pursuant to private placement of units	1,664,333	1,747,550
Less: Share issuance costs	–	(208,064)
Balance, December 31, 1997	7,421,487	3,932,692
Conversion of debentures	432,000	324,000
Exercise of warrants for common shares	4,255,005	4,467,755
Issued as payment for loan financing	45,000	9,000
Less: Share issuance costs	-	(422,462)
	12,153,492	8,310,885
Special warrants:		
Balance, December 31, 1997	–	–
Issue of standby warrants for interim financing facility	142,857	150,000
Balance, December 31, 1998	12,296,349	$ 8,460,985

(c) Effective June 22, 1998, the Corporation completed a share consolidation whereby one new common share was issued for each three common shares previously held. All share and per share amounts have been restated to reflect the impact of this consolidation.

(d) On March 20, 1997, the Corporation entered into a private placement subscription agreement to issue up to 1,000,000 special warrants at a price of $1.08 per special warrant. Each special warrant, upon exercise, allows the holder to receive one unit of the Corporation. Each unit consists of one common share and one-half of the common share purchase warrant. Each whole purchase warrant entitles the holder to purchase one common share at $1.50 per share on or before March 20, 1998.

As part of the placement agreement the Corporation issued 100,000 special broker units, as above, which were exercised during the year ended December 31, 1997.

(e) On November 7, 1997, the Corporation entered into a private placement agreement to issue up to 1,664,333 units at a price of $1.05 per unit. Each unit consists of one common share and one common share purchase warrant. Each whole purchase warrant entitles the holder to purchase one common share at $1.50 per share on or before November 7, 1999.

(f) On May 7, 1998, $324,000 of subordinated convertible redeemable debentures were converted to 432,000 common shares of the Corporation at $0.75 per share.

(g) On June 10, 1998, a standby fee of $150,000 was paid to Quest Ventures to secure, on an if-needed basis, an interim financing facility to complete the acquisition of the Corporation's oil concessions in Argentina. Instead of cash, the Corporation issued as payment 142,857 standby warrants. Each standby warrant entitles the holder to acquire a common share at a price of $1.05 on or before November 20, 1999.

(h) On June 12, 1998, the Corporation closed the issue of 4,255,005 special warrants for gross proceeds of $4,467,755. Issue costs totaled $422,462. Each special warrant entitles the holder thereof to acquire, one common share and one-half of one warrant at no additional cost. Each whole warrant shall entitle the holder to purchase one additional common share at a price of $1.50 per warrant share, exercisable on or before November 20, 1999.

(i) On December 31, 1998, the Corporation issued 45,000 shares at $.20 per share as payment for legal fees incurred in connection with the June 1998 standby fee paid to Quest explained in note 5(g).

(j) Pursuant to the stock option plan for its directors, officers, and employees, the Corporation has granted options to purchase 566,667 common shares at prices ranging from $1.05 to $2.10 per share, expiring on dates up to February 19, 2003.

6. Share purchase loans:

Loans receivable of $300,000 are owing from officers and directors of the Corporation for the purchase of shares of the Corporation from treasury. The loans bear interest at the rate of 6.5% per annum and are secured by 285,000 common shares of the Corporation. At December 31, 1998, the Corporation has determined that the loans are impaired and has written the loans down by $257,250 to their estimated recoverable amount of $42,750.

7. Related party transactions:

During the year ended December 31, 1998, the Corporation paid $718,313 (1997 - $117,671) for consulting services and salaries provided by directors and officers of the Corporation. Included in accounts payable is $39,394 (1997 - $nil) owing to directors and officers of the Corporation.

8. Income taxes:

The income tax expense differs from the amounts which would be obtained by applying the expected Canadian income tax rate as follows:

	1998	1997
Income tax rate	44.6%	44.6%
Computed income tax recovery	$ (752,210)	$ (341,625)
Non-deductible depletion	20,845	34,515
Crown royalties	61,264	11,881
Other	–	(1,231)
Foreign tax rate differential	49,463	–
Unrecognized benefit of losses	620,638	296,460
Provision for taxes	$ –	$ –

9. Financial instruments:

Fair values:

The carrying values of cash, accounts receivable and accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of these instruments.

10. Uncertainty due to the Year 2000 Issue:

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000 and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect a Corporation's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Corporation, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

11. Industry segments:

The Corporation's activities are operated in two geographical areas: Argentina and Canada.

	Canada	Argentina	Total
Oil and gas, net of royalties	$ 71,903	$ 1,174,081	$ 1,245,984
Interest income	45,847	14,131	59,978
	117,750	1,188,212	1,305,962
Operations	64,282	809,179	873,461
General and administrative	1,089,559	255,233	1,344,792
Interest on long-term debt	28,276	884	29,160
Financing charges	85,622	–	85,622
Depletion and depreciation	110,183	549,314	659,497
	1,377,922	1,614,610	2,992,532
Net loss	$ (1,260,172)	$ (426,398)	$ (1,686,570)

12. Contingency

The Corporation was named as a codefendant over damages resulting from development of property in which the Corporation has an interest in Argentina. The claims have been dismissed. However, under Argentinean law the Corporation may be responsible for legal costs incurred by the claimant related to the claim of approximately $150,000, due to the bankruptcy of the claimant. The Corporation has not received notification of any claim related to this matter and will take recourse against the vendors in the event of a claim.

Corporate Information

Board of Directors

Stan G.P. Grad[1]
Chairman of the Board
Independent Businessman
Airdrie, Alberta
September 1997

Peter A. Sider
President and Chief Executive Officer
Calgary, Alberta
September 1997

J. Richard Harris
Independent Businessman
Calgary, Alberta
November 1997

Raymond P. Antony[1]
Independent Businessman
Calgary, Alberta
January 1997

David E. Butler[1]
President
Passport Petroleums Ltd.
Calgary, Alberta
February 1997

[1] Member of the Audit Committee

Officers

Peter A. Sider
President and Chief Executive Officer

James B. Judd
Vice President Exploration

Raymond P. Antony
Chief Financial Officer

Head Office

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Reservoir Engineers

Gilbert Laustsen Jung Associates Ltd.
Calgary, Alberta

Auditors

KPMG Chartered Accountants
Calgary, Alberta

Bankers

Royal Bank of Canada
National Bank of Canada
Calgary, Alberta

Solicitors

Armstrong Perkins Hudson
Davision Worden
Calgary, Alberta
Maciel, Norman, Martelli & Beretta
Buenos Aires, Argentina

Registrar and Transfer Agent

CIBC Mellonx Trust Company
Calgary, Alberta

Stock Exchange Listing

The Alberta Stock Exchange
Symbol - NLD

Designed and produced by Next Wave Design Group

Netherfield Energy Corporation

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